

ASSEMBLY BILL

No. 1736

**Introduced by Committee on Veterans Affairs (Parra (Chair),
Cohn, Matthews, Mullin, Nakano, Runner, Salinas, and Wyland)**

March 6, 2003

An act to amend Sections 987.71 and 987.775 of the Military and Veterans Code, relating to veterans, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

AB 1736, as introduced, Committee on Veterans Affairs. Veterans: Cal-Vet loans.

The Veterans' Farm and Home Purchase Act of 1974 authorizes the Department of Veterans Affairs to assist veterans in acquiring farms and homes, as provided. Existing law requires a purchaser, as defined, to make an initial payment, as defined, to the department of at least 2% of the selling price, as defined, of the property to be acquired, except that the department may waive this initial payment when the value of the property, as determined by the department from an appraisal, equals the amount to be paid by the department for the property plus at least 5%.

This bill would additionally authorize the department to waive the initial payment for a purchase that requires a loan guaranty by the United States Department of Veterans Affairs.

Existing law provides for the Veterans' Farm and Home Building Fund of 1943. Existing law creates within this fund a segregated account to receive gains realized when the department declares a forfeiture of a purchaser's property, as provided. Existing law authorizes the department to expend moneys from that account for, among other purposes, providing assistance to lower income first-time

purchasers by postponing loan principal payments or loan payment installments.

This bill would additionally authorize the department to expend moneys from this segregated account in this fund to provide initial payment assistance to lower income first-time purchasers in the form of a deferred-payment 2nd loan, as provided. By authorizing this additional use of moneys from the Veterans' Farm and Home Building Fund of 1943, an appropriated special fund, this bill would make an appropriation.

Vote: majority. Appropriation: yes. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 987.71 of the Military and Veterans
2 Code is amended to read:

3 987.71. (a) The purchaser shall make an initial payment of at
4 least 2 percent of the selling price of the property. The department
5 may waive the initial payment in any case where the value of the
6 property as determined by the department from an appraisal equals
7 the amount to be paid by the department plus at least 5 percent. In
8 the case of a purchase requiring a loan guaranty by the United
9 States Department of Veterans Affairs, *the department may waive*
10 *the initial payment and* the purchaser shall pay the loan guaranty
11 fee, which may be added to the loan amount. The department may
12 require the purchaser to pay a loan origination fee, not to exceed
13 1 percent of the loan amount, which may be added to the loan
14 amount.

15 (b) The balance of the loan amount may be amortized over a
16 period fixed by the department, not exceeding 40 years for farms
17 or homes and not exceeding 30 years for mobilehomes located in
18 mobilehome parks, as defined in Section 18214 of the Health and
19 Safety Code, together with interest thereon at the rate determined
20 by the department pursuant to Section 987.87 for these
21 amortization purposes.

22 (c) The department may, in order to allow the veteran to
23 purchase the home selected without incurring excessive monthly
24 payments, at the time of initial purchase, postpone the
25 commencement of payment of the principal balance for *a period*
26 not to exceed five years if the veteran's current income meets the



standards for purchase on these terms and if the department determines, in accordance with previously established criteria for these determinations, that the veteran's income can reasonably be expected to increase sufficiently within the five-year period to make the transition to fully amortized principal and interest payments, so long as the total term of the contract of purchase does not exceed 40 years, or 30 years where the contract relates to a mobilehome located in a mobilehome park, as defined in Section 18214 of the Health and Safety Code.

(d) The purchaser on any installment date may pay any or all installments still remaining unpaid.

(e) In any individual case, the department may for good cause postpone, from time to time, upon terms the department determines to be proper, the payment of the whole or any part of any installment of the purchase price or interest thereon.

(f) Each installment shall include an amount sufficient to pay the principal and interest on the participation contract to which the interest of the department is subject, and any amount as may be required by a covenant or provision contained in any resolution of issuance.

(g) When a purchaser makes an initial payment of less than 20 percent of the selling price of the property, the department shall do all of the following:

(1) Take prudent measures to minimize losses from loan defaults and loan delinquencies.

(2) (A) Ensure the continued financial solvency of the loan program by charging fees to cover the costs, as determined by the department, of any loan guaranty, primary mortgage insurance, or other similar arrangement.

(B) Fees charged under this paragraph may be included in the amount of the loan, collected in advance, or collected as part of the monthly payment.

(h) (1) Subject to paragraph (2), the department may provide initial payment assistance to lower income first-time purchasers by providing a deferred-payment second loan, upon which simple interest shall be charged at a rate established by the department.

(2) A deferred-payment second loan described in paragraph (1) is subject to all of the following conditions:

(A) The loan may not exceed 3 percent of the selling price of the farm or home.

1 (B) *The loan shall be secured by a deed of trust.*

2 (C) *The loan shall be due and payable upon the payment in full*
3 *of the contract or upon the sale or transfer of the farm or home.*

4 SEC. 2. Section 987.775 of the Military and Veterans Code is
5 amended to read:

6 987.775. Whenever the department proceeds under Section
7 987.77 to declare a forfeiture and to retain all payments made
8 under the forfeited contract as rental paid for occupancy, the
9 department may, in lieu of paying any net gain to the purchaser in
10 accordance with Section 987.79, deposit that net gain into a
11 segregated account in the Veterans' Farm and Home Building
12 Fund of 1943 created to receive funds pursuant to this section. The
13 funds in the account shall be accumulated until June 30 of each
14 year, and any losses on the sales of forfeited properties during the
15 fiscal year shall be deducted from the total of the net gains
16 deposited in the account during the fiscal year. The department
17 may expend the funds remaining in the account on June 30 each
18 year, after deduction for losses on sales of forfeited properties, for
19 purposes of assistance to lower income purchasers pursuant to
20 subdivision (c) ~~or, (e), or (h)~~ of Section 987.71 ~~who might~~
21 ~~otherwise be rejected because of insufficient income or decline~~
22 ~~benefits under this article because of inability to afford the initial~~
23 ~~payment pursuant to subdivision (a) of Section 987.71. No~~
24 ~~financial assistance provided under this section may be used to~~
25 ~~reduce the initial payment required of the purchaser below 3~~
26 ~~percent, except as provided by Section 987.71.~~